

# The Theory of ‘Intra-Asian Trade’ And An Asian Economic Community

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## Prologue

The main purpose of this article is to introduce the discussion in Japan on historical relations among Asian regions since the latter half of the 19<sup>th</sup> century. Economic historians in Japan have been much interested in the modernization and industrialization in Asian regions. There have appeared recently not a few researches examining these processes from international perspective. Among them, the theory of “intra-Asian trade” has attracted a lot of interest. As mentioned below, it includes the assertion that the industrialization in East Asia would not have been possible without the close economic relationship among Asian regions. From a certain point of view, the relationship may be looked upon as a prototype of an Asian economic community. In this article, I’ll summarize the essence of the theory of “intra-Asian trade” while distinguishing the periods between before and after World War II and consider what the theory suggests on the problem of an Asian economic community. I’d like to point out both the significance and limitations of the theory.

## I The essence of the theory of “intra-Asian trade” (before World War II)

“Intra-Asian trade” is a word originated by a Japanese scholar of economic history, Kaoru Sugihara. He was born in 1948 and is now a professor of the National Graduate Institute of Policy Studies in Tokyo. He created the word as an important concept for investigating the economic relations between Western countries and Asian regions since the latter half of the 19<sup>th</sup> century and the factors of the industrialization in Asia (particularly East Asia).

He criticized Euro-centric understandings of history which emphasize one-sidedly the strength of the impact of Western countries and the stagnation of Asian societies. He also criticized nationally limited perspective which attributes the success or failure of the industrialization in an Asian country to just its domestic factors.

“Intra-Asian trade” means the international trade within Asian regions. It is composed of the trade among four principal areas, namely India, South East Asia, China, and Japan, in addition to the trade between these areas and the other Asian areas. He grasped Asian economic zone as a

single unit in the sphere of trade and made clear the trading relations within it. Thereby he tried to investigate the factors of the industrialization in East Asia in relation to the world economic system. His conclusions on the period before World War II are as follows. (1) Asia's responses to the impact of Western countries had both sides of independence and dependence, (2) The industrialization in East Asia was based on the expansion of intra-Asian trade which had been stimulated by the international economic order created by Western countries.

The period before World War II can be divided into two parts by World War I. Intra-Asian trade expanded remarkably during the former part of the period. The extent of expansion exceeded that of the trade of Western countries with Asian regions. Until the beginning of that period, the foreign trade of Asian regions had given much weight on the trade with Western countries. It can be seen as a feature of dependence because Asian regions had exported mainly primary products and had imported a lot of manufactured goods. The character was owing to the fact that Asian regions were forced by Western countries to enter into the world trade. In contrast, Asian regions during the period could strengthen mutual economic connections through the expansion of intra-Asian trade, and the trade began to include an industrialized pattern of trade, i.e. exchange between manufactured goods and primary products within Asia. That transformation was derived from the beginning of industrialization in Asia with the development of modern cotton industry in India and Japan. These phenomena illustrate that Asian regions at the time began to obtain independence from the world system led by Western countries.

Let's see the patterns of the trade. First, trade of merchandise related to cotton industry was dominant (cotton industry based system). India exported much of cotton thread to China, cotton piece goods and jute bags to South East Asia, and raw cotton to Japan. The principal commodities Japan exported to China were cotton thread and piece goods, and she exported a lot of cotton piece goods to South East Asia.

South East Asia increased the import of cotton piece goods as the demand of the laborers and peasants for necessities of life expanded. The demand was brought from the development of plantation and mining industry of metals and oil in the region. On the other hand, it exported basic foodstuffs such as rice of Burma & Sham and sugar of Java. These basic foodstuffs were also demanded in the regions of plantation and mining. These exchanges meant that Asia had an industrialized pattern of trade within it, though South East Asia was obliged to have dual peripherization because it imported manufactured goods from and exported primary products to not only Western countries but also other Asian regions. The industrialization in Japan and the peripherization (=delay of industrialization) of South East Asia were "two sides of the same coin".

The important factors of these changes were as follows.

(1) The expansion of intra-Asian trade and the industrialization in Asia depended on the

international economic order formed by Western countries. First, one of the prerequisites for intra-Asian trade was the Asian free trade zone created by Western countries by means of colonial rules and unequal treaties. Second, the expansion of the trade and the industrialization depended largely on Asia's export trade of primary products to Western countries through the following nexus.

- ①The demand for primary products in Western countries→
- ②The development of export economy in Asian regions→
- ③The increase of income (=purchasing power) of the laborers and peasants→
- ④The expansion of demand for necessities of life made in Asia→
- ⑤The industrialization in the sector of, for example, textile industry, which produced cloths of not so high quality for the masses.

Third, Western countries constructed industrial infrastructures in order to promote their trade with Asian regions, such as railways, marine transportation, telegram, banking and insurance. They also contributed to the expansion of intra-Asian trade. Such dependence on the trade of Western countries illustrates the limitations of the independence of Asia from the world system.

(2) Asia had particular products complexes which had been long sustained through the Asian traditional mode of life. There was an Asian local system of cotton products composed of "raw cotton of short fiber—thick thread—thick piece goods". In contrast, Western countries had their own modern system of cotton products composed of "raw cotton of long fiber—thin thread—thin piece goods". The former could not be replaced easily by the latter in Asia. The modern cotton industry of Japan and other Asian regions owed their development to the export of commodities suitable for this Asian local cotton-related market. It is possible to call these machine-made goods "Asian types of modern commodities". Rice was also an Asian local foodstuff. The spread of rice eating all over Asia made rice a staple commodity in intra-Asian trade. The continuity of these local products complexes was supported by Asian merchants' trade network. Overseas Chinese and Indian merchants played an important role in the trade. It made Western merchants' dominance over Asian trade so difficult. In short, Asian local products complexes made it possible that the purchasing power generated through the export trade to Western countries was expended within Asia. In other words, Asia appeared as one economic zone of structural unity where the final ripple effects of demand were received within it. Such structural nexus was an important factor for the industrialization in East Asia.

Sugihara's understandings on the interwar period are as follows. During this period, the weight of intra-Asian trade in the world trade steadily increased. The reduction of the trade was relatively small in the 1930s when the world trade was severely damaged by the Great Depression. The above mentioned structural nexus continued to exist. However, he says that the imperialistic

international order constructed by Western countries and Japan during the period prevented intra-Asian trade from having further dynamic development. The main obstacle lay in the difference of situation between East Asia and South East & South Asia.

In East Asia, in accordance with the progress of import-substituting industrialization in China, Japan advanced her industrial structure into a higher stage. When China made progress in the area of light industry, Japan changed over to the area of heavy industry or capital goods production. It was a general tendency in East Asia that the development of a delayed area pushed a more advanced area into a higher stage, while the position (ranking) of each area was kept (Japan always stayed at the head). This parallel development among the members is called “flying geese pattern of development”. Through this process, Asian regions as a whole deepened the economic correlations and strengthened the independence from Western countries.

On the other hand, South East and South Asia could not get rid of the dependent feature of trade (import of manufactured goods and export of primary products) due to the solidity of colonial rules. It delayed the industrialization in the region and prevented the parallel development from extending to South East and South Asia. But as Britain and Holland increasingly based their national economic interests on their sectors of finance and service, they made much of the export income earned by their Asian colonies, so they did not enclose their colonies firmly. It contributed to the expansion of intra-Asian trade.

To sum up, the imperialistic international order in Asia during the period had dual effects. On one hand, it contributed to the expansion of intra-Asian trade through the partly continued free trade system led by Western countries. On the other hand, it fastened the existing division of labor between the agricultural areas and the industrial areas in Asia and did not allow intra-Asian trade to have still more dynamic development.

## **II The economic development in Asia after World War II**

I will summarize Sugihara’s understandings on the period after World War II. He has investigated how and why Asia-Pacific region has become the center of the world economy in these 30-40 years. It is illustrated in the fact that the region now occupies about 50% of both the world GDP and the total amount of world trade. His conclusions are as follows. (1) The pre-war legacy of intra-Asian trade made much contribution to the economic development in Asia after World War II. (2) The driving forces of the development lay in the free trade system supported by the U.S. and the vigorous competition among Asian countries. He emphasizes “mutual benefits of trade” based on the theory of comparative advantage which suggests that trade always gives the participants benefits.

Immediately after world war II, the liberal international order and the economic correlations among Asian regions, which had promoted the expansion of intra-Asian trade in the pre-war years, was partly damaged by the separation of China, India, Indonesia, Indochina etc. from the liberal world economy. It was a product of the penetration of nationalism, anti-colonialism or socialism among these countries. These countries adopted trade protectionism aiming at import-substituting industrialization and promotion of heavy industry. Sugihara says, "it denied the dynamism of the region which had been cultivated in the pre-war period and kept artificially the people away from the mutual benefits of trade" (Sugihara 2003, p.14).

On the other hand, Japan, South Korea, Taiwan, Hong Kong and Singapore remained in the circle of the liberal world economy. According to Sugihara, "these countries and areas would have been able to become the core of economic development in Asia-Pacific region if political situation and trade relation suitable for this potentiality had been secured" (Sugihara 2003, pp.16, 17). The potentiality was nothing but a legacy of the pre-war expansion of intra-Asian trade. The U.S. allowed Japan to revive as an industrial nation and to export her manufactured goods to South East Asia. It was one of the strategies of the U.S. to counter the threat of the socialist states. At the same time, the U.S. wanted to extend free trade system all over the world through the international organizations such as GATT. The above mentioned countries and areas were incorporated into the free trade system led by the U.S., and looked for export-oriented development by means of labor-intensive technologies. These countries made use of the free trade system to export their products to the U.S. However, many other Asian countries including China and India later began to adopt the same economic strategy on account of the difficulty of import-substituting industrialization, and to participate into the liberal world economy.

The characteristics of the economic development in Asia-Pacific region were as follows.

(1) The driving force of the development lay in free and vigorous intra-Asian competition. Sugihara says, "East Asian countries as a whole did not follow a course for economic independence, import-substituting industrialization, and protectionism" (Sugihara 2003, p.86). Many East and South East Asian states carried out powerful policies for economic development. Some states gave economic development the highest priority and made it a common target for the whole nation so as to integrate different tribes or the people of various levels of income and to maintain powerful authority. The regime of these states is often called "authoritarian developmentalism". These authoritarian states vigorously competed with each other for economic development. On the other hand, the industrial policies of Japan were focused on the creation of sectors having international competitiveness, while giving not so much protection for the declining sectors. As a result of this strategy, "flying geese pattern of development" reappeared among East Asian countries, and the industrial structure of Japan advanced into a higher stage through the competition with other

Asian countries.

(2) The industrialization in East Asia depended on smooth deepening of international division of labor. The economic development in Japan after World War II was based on labor-intensive and natural resource-saving technologies. The reasons were that Japan didn't need large-scaled munitions industry as she was a lightly armed state and that she was poor in natural resources. In contrast, as the U.S. was a heavily armed state, her industry was based on capital-intensive and natural resource-intensive technologies. This distinction enabled Japan to have a comparative advantage in the area of textile products or household electric appliances and to export these commodities to the U.S. On the other hand, Japan continued to import weapons and advanced technologies from the U.S. to support her munitions industry. In that sense, the cold war regime and the economic development in East Asia were "two sides of the same coin". Japan was also organized in the "East Asian textile complex" where Japan spun synthetic fibers, Taiwan wove cloths, Hong Kong finished apparels and exported them to the U.S. This meant deepening of the international division of labor among East Asian countries and expansion of intra-Asian trade.

(3) East Asian countries could change quickly their technologies from labor-intensive ones to labor-saving ones after the "micro-electronics revolution". The revolution made labor-saving, natural resource-saving and knowledge-intensive technologies more important than capital-intensive and natural resource-intensive technologies. One of the reasons why East Asian countries could adopt such technologies quickly was that they had long invested a lot of resources into the human capital and had the labor force of good quality. While Japan exported such machines and technologies (for example, NC machine tool) to other East Asian countries, the latter could develop advanced sectors of industry (for example, semiconductor industry) and improve the existing mechanical engineering. East Asian countries as a whole strengthened their ability to export.

(4) One of the most outstanding characters of Asia-Pacific region is diversity of culture and pattern of consumption. While it has brought East Asian countries with abundant opportunities for foreign trade, it prompted them to have contacts with different patterns of culture. Though Japanese life-style was rapidly Americanized after World War II, Japanese did not adopt the American pattern of consumption as it was, but selectively and deliberately received it without collapsing the traditional culture. They could produce a series of distinctive commodities by integrating Japanese culture with Western technologies, such as an auto rice cooker, a pre-cooked Chinese noodle, small-sized and energy-saving cars and household electric appliances (suitable for small houses) and so on. These commodities can be called 'East Asian types of commodities'. In short, the diversity of culture and pattern of consumption in Asia-Pacific region contributed to the expansion of inter-regional trade and the economic development in East Asia.

### III Considerations

I'd like to evaluate highly at least three points included in the theory of intra-Asian trade.

(1) The theory succeeded in effectively criticizing Euro-centric understandings of history. It gave a new interpretation to the historical relations between Western countries and Asian regions since the latter half of the 19<sup>th</sup> century. According to the theory, Asian regions have long made use of the Euro-centric international order to build close economic connections and correlations among them. The connections have been an indispensable precondition for the economic development in Asian regions.

(2) The theory considered the free and vigorous intra-Asian competition as a major factor of the economic development. For Sugihara, intra-Asian trade means an index for examining if there is international order or world system which guarantees such competition at each age. This understanding leads to criticism against imperialistic (or hegemonic) and closed international order forced by a great power. One of the examples was Japan-centric economic zone for self-sufficiency in the 1930s (so called the Greater East Asia Co-Prosperity Sphere).

(3) The theory showed great respect for diversity of culture (=mode of life) among nations or areas. According to the theory, it is such diversity that generates international trade and it is not assimilation but contact of different patterns of culture that creates distinctive commodities.

Let's consider the problem of an Asian economic community. The theory of intra-Asian trade gives us important suggestions on the problem. As the preconditions for an economic community include the high proportion of the intra-regional trade to the total foreign trade and close economic correlations among the regions, the theory can be said to have analyzed the central problem of an economic community. And the expansion of intra-Asian trade for a long time which the theory has demonstrated tells us that Asian regions have already fulfilled some of the preconditions. From a certain point of view, there has been a prototype of an economic community in Asia.

As there are now few political reasons for forming an Asian community, the main purposes should be economic ones. If we accept the theory of intra-Asian trade which considers free and vigorous competition as a major factor of economic development, the chief function expected from an economic community should be to promote such competition. Therefore, extension of free trade system (including abolishment of non-tariff barriers) and domestic deregulation will be regarded as the main purposes of the community. When Sugihara refers to regionalism, he suggests it should be "open regionalism" or "regionalism of collaboration for anti-protectionism" (Sugihara 2003, p.88) and criticizes the protective aspects of the EU. And when he also says "Asia is still outstripped by the EU in institutional integration. The EU achieved currency union

and secured unrestricted flow of capital and labor force" (Sugihara 2003, p.89), he seems to look upon such economic integration as desirable. In short, the theory of intra-Asian trade evaluates an economic community positively as far as it advances economic liberalization, and does not necessarily assert that the bound of the economic community should be limited within Asia. Though it is true that the EU has aimed primarily at economic liberalization and promotion of competition, I think the theory of intra-Asian trade has some limitations for considering the problem of an Asian economic community.

(1) The theory has not considered the difference among some types of economic integration. The network of FTAs or EPAs has extended all over the world, and the TPP negotiations have recently reached an agreement. Negotiations over a FTA between two countries are easier to approach for any country as they are focused on just trade relations and have a room for considering particular interests of a country. Therefore we must examine the following questions. Do Asian countries have now a common motive for forming an economic community beyond FTAs or EPAs? What will be the purposes if they choose to form a community?

(2) The theory has not considered deeply the political aspects of economic integration. Any form of economic integration among countries always includes political problems as well as economic ones as it is impossible without inter-governmental negotiations and generally influences the authority of each government. Even FTAs or EPAs restrict the discretion of its trade and economic policies to some extent. An economic community probably strengthens the restriction and requests a certain extent of transference of each government's authority into the community. In that sense, an economic community is a product of some form of political integration. However, it is not certain if the governments in Asia will agree to such transference in a near future.

(3) The advance in economic liberalization would tend to make economies and societies more unstable, while it stimulates economic development. The frequent occurrence of worldwide financial and economic crises is partly the consequence of the financial globalization based on neo-liberalism. There occurred in these 20 years the Asian financial crisis, the Internet bubble and its burst, the collapse of Lehman Brothers, and the Eurozone crisis (the Greece debt crisis). The Greece debt crisis demonstrated that one of the difficulties of the EU lay in the economic difference among the member countries, or the difference between rich countries and poor countries. The governments of the former showed some reluctance to relieve Greece because of the people's objection to spending money and their lack of sympathy for Greeks. The Greece debt crisis also taught us that a certain extent of integration of public finance is necessary to sustain the monetary integration. Integration of public finance means considerable progress in political integration. As the above-mentioned crises seem to be the consequences of economic



liberalization rather than of its imperfection, it is not advance in economic liberalization that relieves the crises. In that sense, the theory of intra-Asian trade is not sufficient for considering the problem of an economic community as a whole.

The success of an economic community depends on not only advance in economic liberalization but also progress in political integration. The latter can be derived from mutual trust and understanding among the people in the region. If Germans could have thought that Greeks were not foreigners but nothing less than the same nation and the Greece crisis were their own crisis, they would have been more positive to relieve Greece. Though the EU authority has made efforts to popularize the concept of "European citizens" or "the United States of Europe", it has not been easy even for the people in the most advanced community (the EU) to share such consciousness as if they were the same people. It is certainly far more difficult for Asian people. The diversity of culture in Asia may be one of the obstacles to it. I wonder if it may be more realistic that Asian regions would at first deepen and strengthen further the connections among them through the advance in economic liberalization and thereafter they would make a plan for a community.

How can we share such consciousness? In this respect, Akira Irie's understandings are much helpful. He is a Japanese historian and an emeritus professor of Harvard University. According to him, nation states depend on two preconditions for their existence. One lies in administrative organizations including parliament, ministries, courts, police, military force and so on. The other is national identity shared by the people. National identity is based on the shared perceptions of the history of the nation. Irie says, "a nation is a group of people who share the location (border) and the history (perceptions of the past)" (Irie 2014, p.24). The perception that they share the same history molds them into a nation. Nation state governments make efforts to foster national identity among the people through the education of geography and history. Historical researches under the nation state system tend to be concentrated in the history of each nation state and of the rivalry among nation states.

When we apply these understandings to a regional community, we can find it will be one of the preconditions for a regional community that the people would share historical perceptions of the whole region. As far as an Asian community is concerned, Asian people will be expected to look on each history of Asian regions as if it were their own history. The more the people know about the historical connections among them for a long time, the deeper and more confident their perceptions become. Even if we can share such perceptions only in the far future, it is important for historians to continue to explore the historical connections among Asian people and to scrutinize the historical facts accumulated in Asia. The theory of intra-Asian trade has made great contribution to this task. As Irie says that the history of the world is a repeated

process of interaction, connection and fusion (Irie 2014, p.27), historians should explore such a process to contribute to the satisfaction of one of the preconditions for an Asian community. Such attempts will lead beyond the boundary of Asia to the historical researches called “global history” or “history of human-beings”.

## References

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